

Fiscal Note

Fiscal Services Division



SF 302 – Military Hiree Tax Credit (LSB 1674SV)

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Fiscal Note Version – New

Description

Senate File 302 creates a new tax credit for employers that hire qualified military personnel, defined as residents of Iowa who are members of the National Guard, reserve, or regular component of the armed forces of the United States. The tax credit is equal to up to \$1,000 in the tax year of hire and \$500 for the second tax year after the year of hire if the person remains employed.

The Bill also creates a new tax credit equal to \$500 for each year an eligible employee is called for at least 30 days of military service (federal active duty, state active duty, or National Guard duty).

The tax credits are prorated for persons hired during the tax year. For the \$1,000 credit, each month or portion of a month is equal to a credit of \$83.33. For the \$500 second year credit, each month or part of a month of employment is worth \$41.67. The 30-day duty credit is earned by the employer if the employee serves 30 days of duty during the employer's tax year while employed by the employer.

The Bill names the new credits collectively the "Hire a Hero" Tax Credit. The Bill applies retroactively to January 1, 2013 (tax year 2013), and to qualified new hires employed on or after that date.

Assumptions

- Although the year of hire credit is equal to \$1,000, it is prorated to include only those months the qualified employee is employed. Therefore, only employees hired in the first month of the employer's tax year will earn the employer the full \$1,000 first year tax credit. If hiring is equally distributed across the months of a tax year, the average earned credit will be for six months, or \$500 on average.
- The second year credit will begin on the first day of the employer's tax year. Therefore, the average second year credit is \$500.
- The \$500 credit for 30 days of duty applies to all tax years the qualified employee is employed, and it is assumed that all qualified employees will be called to at least 30 days of duty a year.
- When qualified employees leave the job after the second year, the employer will no longer be eligible for the 30-day duty tax credit. However, that employee may take a new job where they would start over as a \$1,000 new hire. This projection does not adjust for either of those situations.
- Fifty percent of all tax credits from CY 2013 will be redeemed in FY 2014. In FY 2015, the remaining 50.0% of CY 2013 credits will be redeemed, along with 100.0% of CY 2014 credits. In future fiscal years, 100.0% of the previous calendar year credits will be redeemed.

- The credits are refundable, so there is no impact on the local option income surtax for schools.
- The projected number of new hires was developed by the Department of Revenue using information from the Department of Defense Manpower Data Center, the Iowa National Guard, and the Iowa Department of Workforce Development. The projected number of new hires is provided in the following table, along with the projected tax credits earned each calendar year.

Military "Hire a Hero" Tax Credit					
Dollars in millions					
Tax and Calendar Year	Number of New Hires	Total Year of Hire Credits	Total Second Year Credits	Total 30 Day of Duty Credits	Total for all Three Credits
CY 2013	3,202	\$ 1.6	\$ 0.0	\$ 1.6	\$ 3.2
CY 2014	1,671	0.8	1.6	2.4	4.9
CY 2015	1,603	0.8	0.8	3.2	4.9
CY 2016	1,540	0.8	0.8	4.0	5.6
CY 2017	1,479	0.7	0.8	4.7	6.3

Fiscal Impact

The new tax credits created in this Bill will reduce net General Fund revenue by the following estimated amounts:

Hire a Hero Tax Credit	
In millions of dollars	
	General Fund Impact
FY 2014	\$ -1.6
FY 2015	-6.5
FY 2016	-4.9
FY 2017	-5.6
FY 2018	-6.3

In future fiscal years, the General Fund impact will increase by approximately \$700,000 per year, as additional new hires are added and all old hires continue to earn employers the \$500 per year 30-day duty tax credit. At some time in the future, this increase will stop as all eligible employed military service personnel will earn their employer the 30-day service tax credit and eligible workers leaving the workforce each year equal eligible workers entering the workforce.

Sources

Iowa Department of Revenue
Department of Defense Manpower Data Center
Iowa National Guard
Iowa Department of Workforce Development
Legislative Services Agency Analysis

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
